CATÓLICA-LISBON Forecasting Lab | NECEP

July 9th, 2025

Executive Summary

The Portuguese economy is predicted to have expanded by **0.7% quarter over quarter** (qoq) and **1.9% year over year** (yoy) in the second quarter of 2025, offsetting the 0.5% qoq contraction in the previous quarter. The eurozone is predicted to have risen 0.4%, after a surprising 0.6%.

In Portugal, annual **inflation** once again exceeded the 2% target, rising to 2.4% in June. However, the qoq change in the consumer price index was only 0.1%, while it was zero for the score indicator. In the eurozone, overall inflation stood at 2.0%, but core inflation remained high at 2.4%. Thus, the disinflation process is ongoing, and overall price growth is expected to remain above the 2% target in 2025, both in Portugal and in the eurozone.

In terms of **monetary policy**, the Fed Funds Rate remained unchanged in the last quarter, due to the uncertainty that US tariff policy may have on inflation and unemployment. In the case of the eurozone, the ECB made two cuts of 0.25 percentage points, so that the deposit facility rate is now 2.0%, an accommodative level that considers the significant drop in inflation expectations. Thus, the asymmetry in relation to the Fed Funds Rate (4.25%-4.50%) became more pronounced. It should be noted that this difference did not prevent significant devaluation of the dollar during the quarter.

The midpoint estimate of **Portugal's economic growth** was revised downward by 0.3 percentage points to **1.7% in 2025**, in the wake of the first quarter's GDP fall which was driven by a private consumption deflator much higher than inflation. For **2026 and 2027**, the growth scenarios of 2.0% and 2.2%, respectively, were maintained. Forecast ranges remain abnormally wide, because of **international uncertainty**, particularly that resulting from the **US tariffs** introduced and announced in early April.

The **eurozone** economy could grow by **1.6% in 2025**, but prospects remain weak in the medium term, with **1.4% in 2026 and 1.5% in 2027**. The financial and monetary effects of the pandemic years persist in the European and North American economies. In the case of Europe, there will be increases in defence spending, which could put pressure on public finances. In the case of the United States, the approval of the One Big Beautiful Bill will certainly worsen the public deficit and debt.

Portugal's second-quarter **unemployment rate** might be **6.0%**, with an outlook of 6.2% in 2025 and 6.1% in 2026.

Geopolitical risks remained throughout the second quarter, whether in the form of Russian aggression against Ukraine or conflicts in the Middle East. Despite the high geopolitical and trade tensions, markets continue to show some normality, with limited episodes of high volatility. In the case of Portugal, attention is now turning to changes in the IRS and migration policies, which may have consequences not only of a budgetary nature, but also on economic activity and prices.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	2025 Q1 a)	2025 Q2	2025	2026
Portugal	GDP (% change on previous quarter)	-0.5	0.7	-	-
	GDP (year on year/annual % change)	1.6	1.9	1.7	2.0
	Unemployment rate (%)	6.6	6.0	6.2	6.1
	Consumer prices (annual % change)	1.9 b)	2.4 a) b)	2.3	2.1
Euro Area	GDP (% change on previous quarter)	0.6	0.4	-	-
	GDP (year on year/annual % change)	1.5	1.7	1.6	1.4
	Consumer prices (annual % change)	2.2 b)	2.0 a) b)	2.2	2.1

a) Official values (Statistics Portugal – INE/Eurostat); b) Year-on-year change at the end of the quarter.